

**THE FOUNDATIONS OF RELATIONSHIP MARKETING**

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**ABSTRACT**

*This article explores the theoretical and conceptual framing of relationship marketing with customer retention and competitive advantage in service sectors like telecom industry. It has shown the history of RM theory and the different perspectives that have enriched its development. The first section also concentrates on the paradigm shift from marketing mix and the major strategic development of relational exchange and management among businesses both domestically and globally. Finally, a conceptual framework has been developed after studying the literature that will help researcher further to develop relationship of RM with customer retention and competitive advantage.*

**KEYWORDS**

Competitive advantage, Customer retention, Grameen Phone, Relationship marketing.

**INTRODUCTION**

**R**M is a sector of marketing that has been discussed among academics and marketing practitioners for over 20 years. In business management, RM was one of the most controversial factors that were rising to prominence. In fact, it was a unifying force within marketing that 'served as the generic context for all marketing transactions, whether products or services, consumer or industrial' (Mattsson, 1997).

Literally, all researcher have given different definitions of relationship marketing, however, they mostly possess common denominators. Comprehensively, a definition addresses that relationship marketing identifies and develops, and enhances relationships among all associated business personnel along with its customers. Furthermore, it focuses fully on potential profitability and future objectives which can be brought up only by loyal and committed relational exchanges (Egan, 2001).

Relationship marketing targets to create relationship with consumers for their satisfaction and retention, whereas transactional marketing intends to make the sale and look for new customers (Vence, 2002). All marketing actions are directed toward developing, and nurturing successful relational exchange. However, practicing conceptual relationship marketing needs a form that accommodates every aspect of relational exchanges (Morgan and Hunt, 1994). The most crucial concern in RM is to enhance long-term mutual relationships with customers after developing them along with other associates, with the fulfilment of objectives. Overall, all the definitions of RM contain common factors:

- It is concerned with long term business relationships and profitable potential in terms of economic growth;
- It targets to develop mutual relationships based on philosophical understanding among them and consensus approach in decisive matters;
- It entails incessant learning and advancing for further reinforcement of the relationship;
- It requires creation of strategic systems and tools that sustain the customers' and suppliers' needs while focusing on business goals. (Blomqvist, 2000)

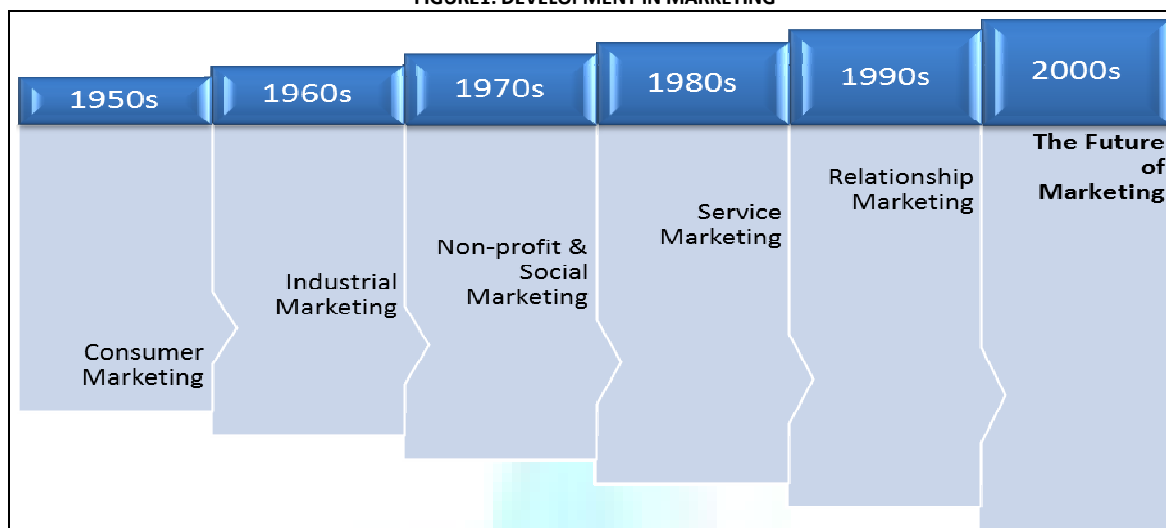
**METHODOLOGY**

Relationship marketing is a concept which has been practised across the world for last five decades. The theory is absolutely new and fresh in Bangladesh. The corporate sector which has been experiencing flourishing growth and cut-throat competition is intensively looking for some applied theory to cope up with the situation. The relationship marketing strategy can be a better remedy for them to win the market. The study is based on idea to review the literature on past academic research on rural marketing so that the firms obtain a guideline particularly for telco industry.

**LITERATURE REVIEW**

There had been several major developments during the 20<sup>th</sup> century in marketing. According to Christopher *et al.* (1991) consumer marketing which was mainly corporate manufacturers and brand marketing were the key concepts that lead the marketing sector of businesses in 1950s. Chronologically from then till 1980s, marketing was characterised by industrial marketing research, non-profit sector of marketing and then the period when the service sector rose to importance with great significance. Each of these research concepts (Figure 1) led to 'new ideas that were being established and an overall growth of marketing power in the commercial world' (Egan, 2001).

FIGURE1: DEVELOPMENT IN MARKETING



(Source: Adapted from Christopher *et al.* 1991)

Marketers are gradually finding out that the traditional way of marketing, according to 'marketing mix'—price, product, promotion, place is becoming inadequate to fulfil market needs. However, marketing mix is referred as 'the holy quadruple...of the marketing faith...written in tablets of stone' (Kent 1998:146). Traditionally, this theory did establish basics of marketing which was developed from micro economy and monopolistic theory (1930) and ethical issue in advertisement (Grönroos 1994). Therefore, even though this theory of marketing is shifting to new paradigm, empirical research suggests that it still remains indisputable concept in academic research of marketing and plays major role in terms of performing businesses (Hultman and Shaw 2003; Coviello *et al.* 2002).

### RECENT PARADIGM SHIFT

However as a paradigm, researchers are finding RM a modern trend (Sheth *et al.* 1988). Most researcher state that the term paradigm is used in a way that supports its application to the necessity of relationship marketing (Schneider 1980).

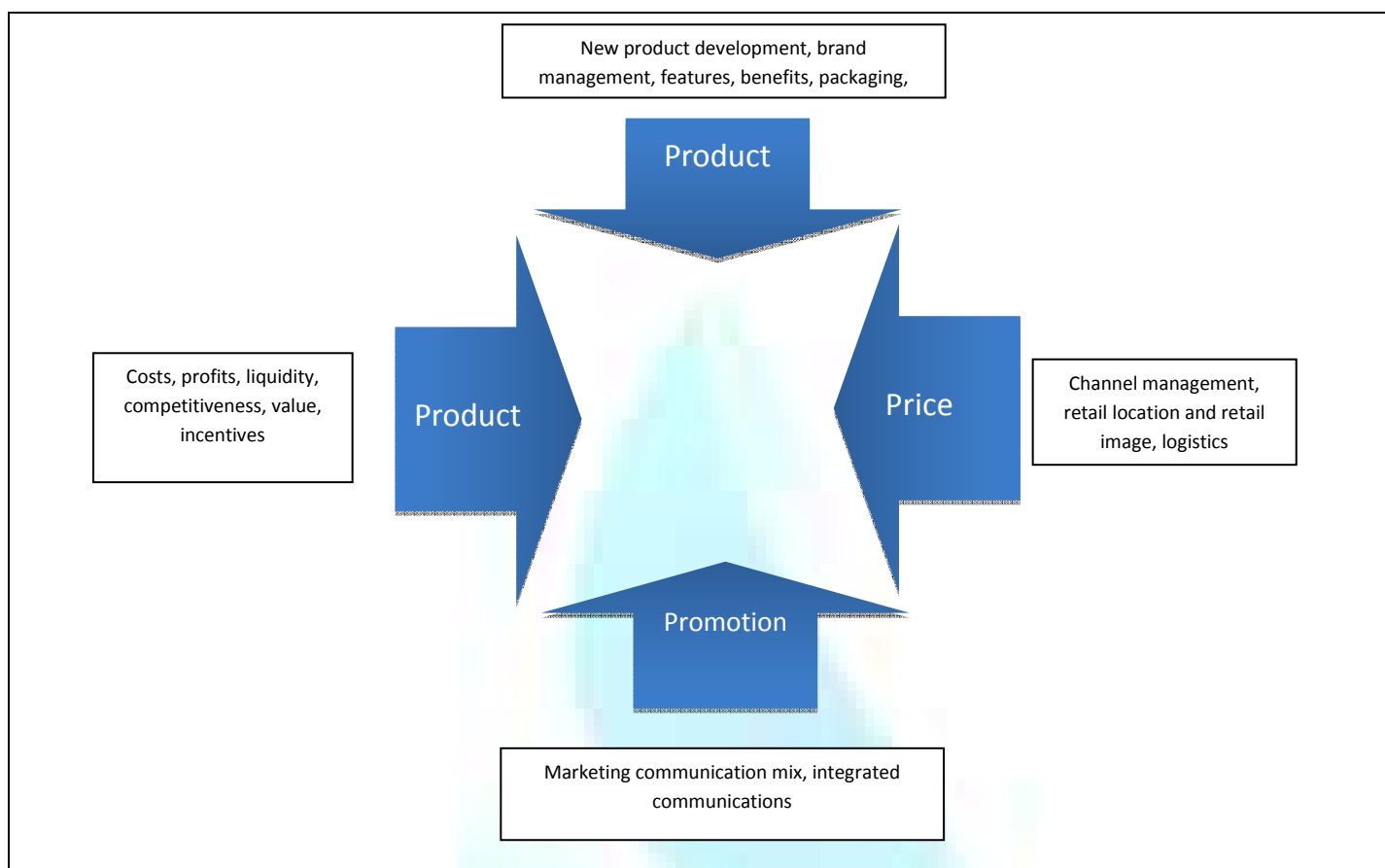
A major shift that is occurring in the conceptual theories of marketing is being stated as paradigm shift by researchers. The marketing mix and traditional concepts of marketing including services marketing, industrial marketing, and the economy of customer relationship is developing further towards 'relationship oriented approach' in market (Grönroos 1994). This paradigm shift is stated to be Relationship Marketing. There were reasons as to why the need for paradigm shift arose.

- To involve recognition of importance of customer retention
- To globalize the businesses
- To keep up the pace with progressing market economy
- To develop nature of marketing mix
- To fulfil the need for establishing closer customer relationship

Besides the above market demands, paradigm shift occurred to fulfil the lacking of marketing practice and achievements. Traditional marketing consisted a production oriented characterization, not customer or market based whereas market demanded oppositely. Furthermore as it was discussed, categories were found not mutually exclusive and the basis of classification was identified.

As the marketing mix is the basic framework in RM, the newer developments comes of further analysis of these same key concepts showed in the diagram.

FIGURE 2: MARKETING MIX



(Source: Egan, 2001)

A number of indispensable elements of relationship marketing paradigm were being conversed where it was mentioned that supplementary knowledge permitted the augmentation of RM as an alternative viewpoint. For instance, the concentration of business was on customer increase, rather than retention and satisfaction although they both share proportional outcome to each other according to Schneider (1980).

Basically, relationship marketing focuses mostly on a long-term relationship with its partners spreading in numerous transactions (Dwyer *et al.*, 1987). This mutually beneficial and long-term characteristic of RM highlights that 'customer satisfaction is a necessity but the prominent goal should be to establish a long-lasting relationship with mutual benefits' (Achrol, 1997). Companies can distinguish the value of long-term relationships with customers and partners but for implementation, they still need proficient knowledge of RM in most cases (Egan, 2001).

### GLOBAL RELATIONAL DEVELOPMENT

The importance and implementation of RM globally is another aspect that marketing practitioners are looking at to evaluate its strategic development. Firstly, there are not any specified directions for marketing accomplishment which can be founded on past experience in reasonably steady markets in global open markets. Open market conditions generate elevated planes of transformations and intricacy between and within organizational borders. Establishing more open relationships with key customers, suppliers and other stakeholders can be seen as strategies for creating stability as well as opportunities of value creation.

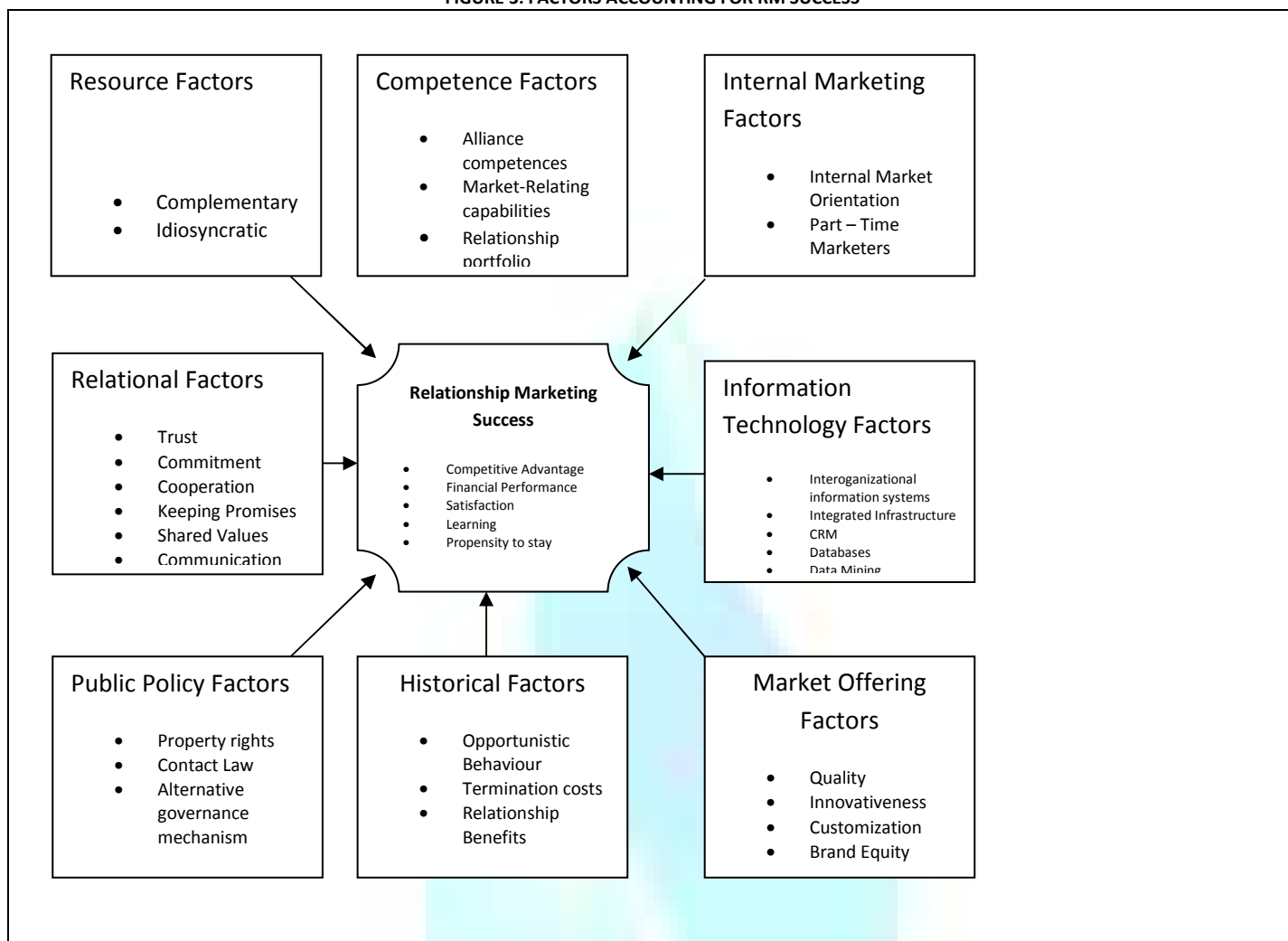
Secondly, modern information technologies have enabled better and faster exchange links between data collection and firms about customer behaviour on an unparalleled scale. We believe that a 'transactional' marketing mindset is not adequate to work with these changes and challenges. With increasing uncertainty in financial markets since September 11 and more recent dismay at unethical short-cut approaches to creating shareholder value, academic and practitioner interest in the creation and distribution of value among a firm's stakeholders seems likely to increase.

### EXCHANGE TO RELATIONSHIP MARKETING

#### TRANSACTION AND RELATIONSHIP MARKETING

Jackson (1985) made important distinctions between relationship marketing and transaction marketing. According to the relationship marketing literature, a transaction marketing approach focuses on the single sale so that customer attraction, rather than retention, is thought to be the key criterion for business success (Christopher, Payne, and Ballantyne, 2002; Jackson 1985). However, as markets have matured and customers have become more affluent and are able to switch products and services more easily, organizations have realized that there are benefits to establishing and maintaining relationships with clients and suppliers. In other words, arguably close relationships with customers can lead to sustainable competitive advantage (Rosenberg and Czepiel 1984; Reichheld and Sasser 1990).

FIGURE 3: FACTORS ACCOUNTING FOR RM SUCCESS



Source: Hunt and Arnett (2004)

The above figure classifies RM success into eight different factors that contribute to this achievement. These are factors that differentiate RM from other strategies. These are the some materials or immaterial benefit that firm can enjoy by practicing relationship marketing in their organization. Nevertheless in comparison between these two concepts of marketing, it can be said that both highlights on customer acquisition and retention more or less (Grönoos, 1996; Gummesson, 1999). The goal of the latter is to acquire new customers, whereas relationship marketing aims at retaining valuable customers by focusing on individual needs (Liljander, 2000). However in transaction marketing, customer can develop attachment to the brand or the company's image besides the core product. Whereas, RM focuses on customer satisfaction, value and creating long-term attachments that would result in permanent relational development with customers resulting in higher profitability. Besides, RM provides added value to the customer which the core product cannot provide by itself.

### IMPORTANCE OF RELATIONAL EXCHANGE

Relational exchanges, in other words, relationship marketing became controversial concept amongst businesses for its strategic establishment. Companies and firms tend to involve into relational interactions with other consumers and businesses mainly since rivalry is centrally focused on economy. It is proposed that firms enter into these relational exchanges when these relations benefits companies to contend more efficiently. And at that time, relationship marketing entails a strategic approach (Berry, 1983).

It has been suggested that, when used with skill, customer retention leads to enhanced revenue, reduced costs and improved financial performance. This echoes the claim by proposing a list of accumulating benefits that contribute to an entire 'life cycle of profits' from the customer (Egan, 2001; Reichheld, 1996).

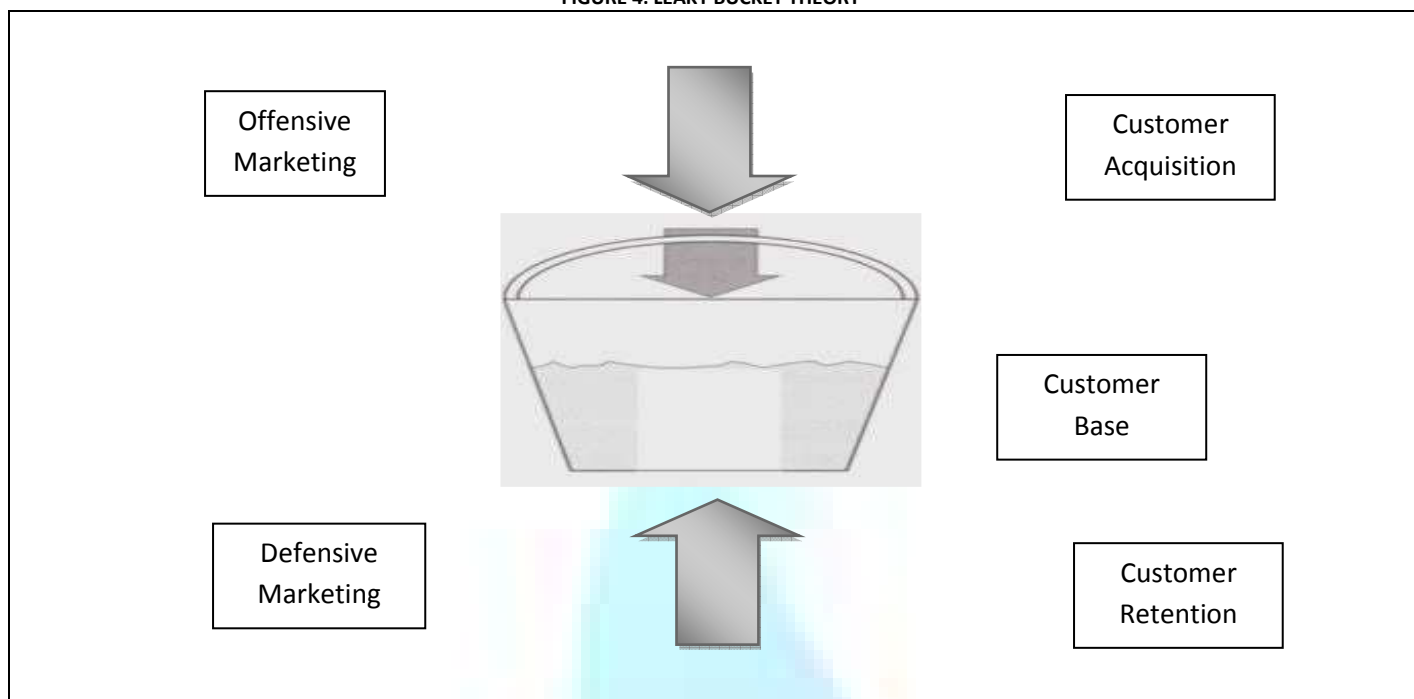
The economic sociology literature, which has claimed that economic transactions are embedded in social relationships, provides a theoretical explanation for the double consideration of traditional marketing variables and relationship marketing variables (Granovetter, 1985; Wathne, Biong, and Heide, 2001). Two of the seven principles of embedded concepts listed by Hunt and Arnett (2003) can be used to justify the simultaneous use of transactional and relational marketing efforts. The first principle claims that human action should not be over socialized. This principle advises on the danger of ignoring the importance of the intrinsic economic value of an exchange to the exclusive benefit of its social advantages.

### CUSTOMER RELATIONSHIP

#### CUSTOMER ACQUISITION AND RETENTION

Traditional marketing had been attempting to make new customers whereas, it is crucial that both new customers flow in while restricting customer exit. The strategy of 'offensive marketing' which targets to draw displeased clients away from contenders, specifically in times of heavy competition (Storbacka, 1994). However in addition to the offensive marketing strategy, RM also suggests 'defensive strategies' where customer retention comes into effect. In profitability achieve, researchers believe that dual strategies need to be efficiently in use for a company in order to fulfil RM's objectives (Egan, 2001). This theory is called 'leaky bucket theory' as the following diagram demonstrates (Figure 4)

FIGURE 4: LEAKY BUCKET THEORY



Source: Egan (2001)

Leaky bucket theory emphasizes on both customer acquisition and retention. Researchers who developed this theory state that flow of 'new blood' is significantly needed in order to replace any loss of customers (Egan, 2001). Considerably, they serve as the potential consumers since their overall number affects profitability in service marketing. In contrast, in relationship marketing customer retention has been given more prominence in perspective of company's benefit and reputation than customer acquisition (Gummesson, 1999). More companies accept the theory of customer retention generally because of the following reasons:

- Existing customers are easy and inexpensive to retain than to create new stream of clients
- It takes much less levels of marketing effort and financial input to satisfy old customers
- Consumers' loyalty serves as secure and superior profitability over time for the company (Reichheld, 1996; Egan, 2001)

#### EVALUATING CUSTOMER RETENTION AND ITS ECONOMICS EFFECT

Customer retention is a proficient concept of relationship marketing although further justification states that manipulating variables are also presents in this theory. According to Egan (2001), policies called 'zero defections' do exist in customer retention where it is near to impossible and impractical to retain hundred percent customers. In fact, it puts risk on company's profitability as for not every aspect of customers' behaviour is in control of company (Gummesson, 1999). It is suggested that the benefit of customer acquisition in front-end cost exceeds customer retention because it is 'ten times costly to create new customer than to retain an existing consumer' (e.g. Christopher *et al.*, 1991; Gummesson, 1999). Therefore, more companies have extensively adapted this strategy of keeping existing customers happy first than to invest time and effort in new customer acquisition (Barnes, 1994). However, both attraction and retention are essential because economic achievement can be earned by inclusively focusing on current as well as prospective clients in long-term plan. It is because even quality management cannot prevent customers from flowing away in which case the gap must be filled (Hart, Heskett, and Sasser, 1990). Moreover, circumstantial and psychological factors drive customers to abandon interactions (Pessemier and McAlister, 1982). Generally, the higher longevity of customer relationship, the more profitable the relationship becomes to the organization (Reichheld & Sasser, 1990). Long-term customers buy more, bring in new customers, take less of the service providers' time, are less sensitive to price, and require no start-up or acquisition costs.

The economies of retention strategies are also endorsed as form of competitive advantage through the interpretation based on time that long-term relations carry out permanent advantages (Murphy, 1997). It can be mentioned that an organization's long-term financial outcomes depends on long-term maintenance and network of relationships. In terms of relational stages, individual customers are handled in different ways as needed which is opposed to the mass marketing. However, long-term customer satisfaction is important as it establishes long-term benefits. The recognition of diverse relational periods in Relationship marketing is also inclusive to the implied supposition that the higher the stage of development is, the greater the productivity of the organization.

#### RELATIONSHIP LOYALTY

The central concept of creating compatible relationship with customers is stated as relationship loyalty where the company develops customer growth and retention through incentives (Singh and Sirdeshmukh, 2000). Customer loyalty is viewed as the personal attachment between the customer's virtual approach and constant support for the service and company according to (Dick and Basu, 1994). In relationship marketing, relationship loyalty is a remarkable component that contributes to most of the success of RM.

#### LOYALTY LADDER

Loyalty ladder is a term to identify types and levels of customer loyalty encountered by the company in a graphical sense. To recognize the position of client loyalty, it is important to measure their satisfaction which would result in supportive attitudes towards the company.

#### TRANSFORMATION OF RELATIONSHIP LOYALTY LADDER

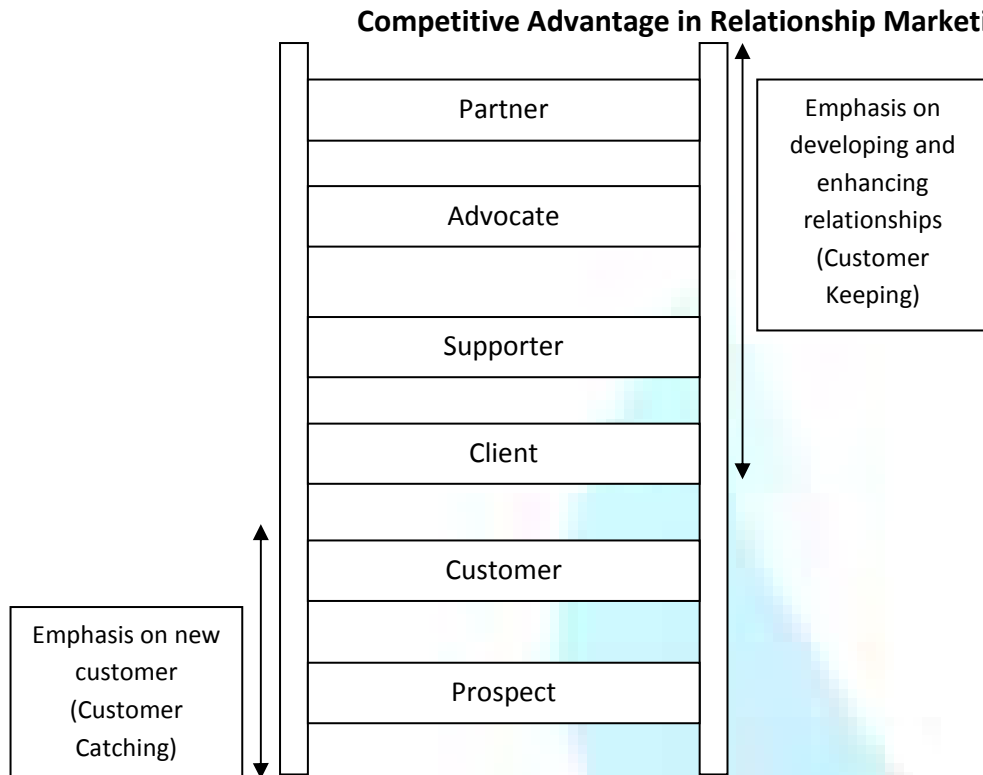
Relationship building has been defined to be a lasting practice. In establishing the idea, developed concept of the ladder has few more steps to this. Marketing convert individuals to 'customer' from benefits to an organization, just before 'prospect'. However in RM, a customer has few interactions with its providers. 'client' is the next step. A client is someone intends to involve in a regular basis. (Payne *et al.*, 1999)

'Supporter' is that individual who supports the company and become 'advocates' when enthusiastically suggest us to others. Partner is the last stage where they seek to identify further ways in which mutual exchanges that can be gained from the relationship with the company.

In the following model, the stages of consumer involvement in RM have been shown:

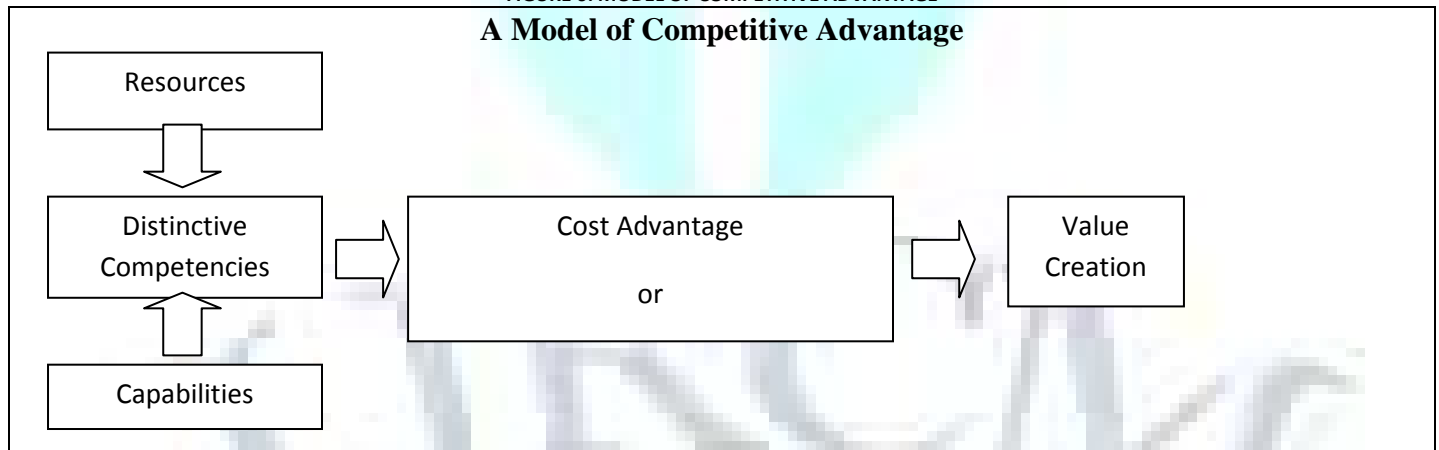


FIGURE 5: THE RELATIONSHIP MARKETING LADDER OF CUSTOMER LOYALTY

**LINKAGE WITH SERVICE MARKETING**

Service Marketing has close linkage with relationship marketing and combination could generate competitive advantage through marketing. Telecom industry is a kind of service marketing where customer relationship is crucial for profitable acquisition. The fundamental necessity of RM is to attain competitive advantage which generates better economic development. In case of telecom industry, companies should recognize and establish a network of relationship to better perform for its customers (Gummesson, 2002; Derozier and Hunt, 2004). Consequently, Resource-Advantage (R-A) theory along with aspects of service marketing is significant to justify the analysis in terms of competitive advantage. However, the coordination of capabilities and distinctive competency with resources create cost advantage which crucial for competitive approach for a company. (Figure: 6)

FIGURE 6: MODEL OF COMPETITIVE ADVANTAGE



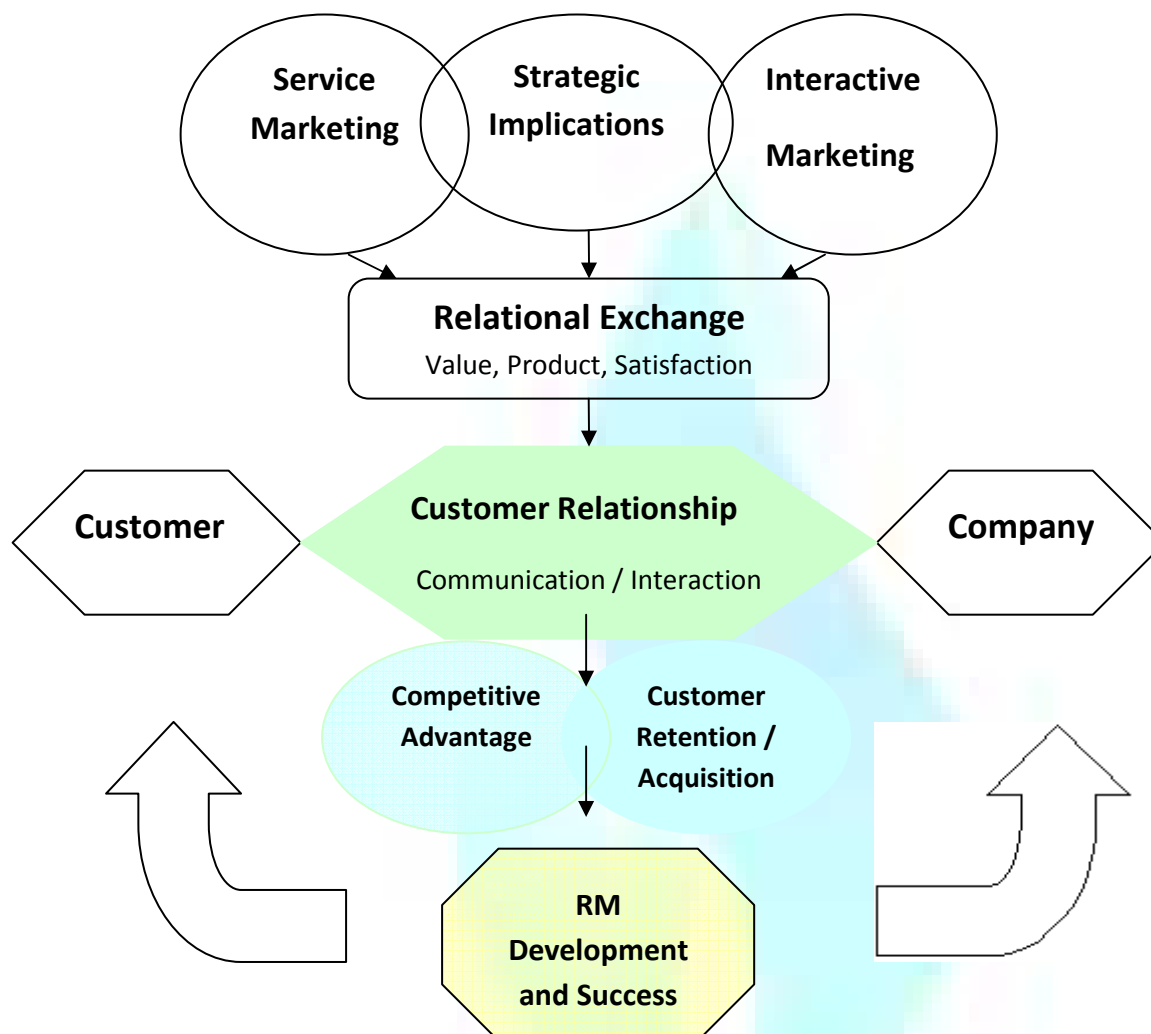
Furthermore, resource based theory is a premise that can supply foundational structure for RM approach in terms of competition (Hunt, 2002; Derozier, 2004). This evolutionary supposition includes innovation and organizational learning to be in effect economic performance. It is because the fact that company's resources are as significant advantage as consumers' preferences and satisfaction. In service marketing, competitive advantage determines company's potential profitability among other companies.

**RM ACHIEVEMENT THROUGH COMPETITIVE ADVANTAGE**

In competition among firms within market, comparative advantages in resources are viewed essentially. Companies taking intensive care of their customers attain competitive advantage in market through sincere hospitality of relationship between and this is where strategic implication of RM theory takes place. Relationship marketing emphasizes on customer satisfaction and preference with service and service provider which is also a major entity to increase the rate of retention. On the other hand, dissatisfaction can also be a strong incentive for negative impact (Sawhney and Zabin, 2002). Relationship marketing has the ability to build influential relations with clientele that would result in competitive advantage as well among other firms and companies. On the other hand, market relationships create sustainable advantages precisely because they are so difficult to manage.

**CONCEPTUAL MODELLING**

Reviewing literature authors' have developed a conceptual modelling, which aids researchers in future to explore the practices of company based on this model. Relationship marketing is rather holistic concept and success depends on assistance from all sectors of an organization. The model in the following figure has depicted that very holistic scenario.

**FIGURE 7: CONCEPTUAL FRAMEWORK OF RELATIONSHIP MARKETING DEVELOPMENT**

Source: Authors' analysis based on Literature Review

The central notion of the model is relationship of customer and company established only with the combination and coordination of each component showed that contribute to Relationship marketing development and RM.

**CONCLUSION**

This review executed ample research on Relationship Marketing comprehensive knowledge. To identify the key attributes of customer relationship and retention, definitions of marketing scholars resulting in competitive advantage in service marketing have been accumulated. Available literature of relationship marketing highlights significance of incorporation for customer acquisition/ retention in terms of creating relationship longevity. The theories and activities recommended through RM researchers about diverse aspects of strategic RM in creating prominence marketwise, the increasing efficiency of competitive advantage is discussed. Furthermore, the grounds of failure and success, ranging from strategic implication to evaluating importance have been emphasized with graphical demonstrations as available.

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